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LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

LOUISIANA CITIZENS COASTAL PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5-24-06

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

I N D E X

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS:

EXHIBITS:

"A"	Statement Of Assets, Liabilities And Surplus
"B"	Statement Of Income And Surplus
"C"	Statement Of Cash Flows

SUPPLEMENTARY INFORMATION:

SCHEDULES:

"1"	Premium Statistics
"2"	Loss Statistics
"3"	Loss Adjustment Statistics
"4"	Investments
"5"	Adjusted Surplus And Adjusted Income

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCHEDULE OF PRIOR YEAR FINDINGS

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JAMES J. GALLAGHER, JR. (1918-1989)
JACOB F. PEPPERMAN (1927-1990)
WILFRED SCHWARTZ, RETIRED
MICHAEL S. HOOK (1954-1997)
LAWRENCE A. EMBOULAS, RETIRED

INDEPENDENT AUDITOR'S REPORT

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

Metairie, Louisiana

We have audited the accompanying statement of assets, liabilities, and surplus of LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION - LOUISIANA CITIZENS COASTAL PLAN, METAIRIE, LOUISIANA as of December 31, 2004, and the related statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Louisiana Department of Insurance, which practices differ from generally accepted accounting principles. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, are described in Note 1 and summarized in the supplemental schedule of adjusted surplus and adjusted income.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan as of December 31, 2004, or the results of its operations or its cash flows for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and surplus of Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2006, on our consideration of the Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the National Association of Insurance Commissioners. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of *forming* an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Supplementary Information" is not a required part of the financial statements but has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pepperman, Emboukas, Schwartz & Todaro, L.L.C.

Metairie, Louisiana
January 27, 2006

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMPANY BACKGROUND:

This discussion provides an assessment by management of the financial position, results of operations, cash flow and liquidity for Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan (Coastal Plan). The Coastal Plan was established in 2003 by the Louisiana legislature as a nonprofit corporation to operate insurance plans effective January 1, 2004 which function exclusively as residual market mechanisms to provide essential property insurance for residential and commercial property applicants who are unable to procure insurance through the voluntary market. "Coastal Plan" is a program of the Louisiana Citizens Property Insurance Corporation that is the successor to the program established by Act 424 of the 1992 Regular Legislative Session designated as the "Coastal Plan" or otherwise known as the Louisiana Insurance Underwriting Plan. The Coastal Plan is not required to obtain a certificate of authority from the commissioner of insurance, nor shall it participate in the Louisiana Insurance Guaranty Association. Information presented in this discussion supplements the financial statements, schedules, and exhibits in Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan's 2004 Annual Statement. Year to year comparisons will not be provided as this is the first fiscal year for the Coastal Plan.

FINANCIAL POSITION:

The Coastal Plan's financial position at December 31 was as follows:

BALANCE SHEET
2004

ASSETS

Cash And Cash Equivalents	\$4,714,592
Premiums Receivable And Agent Balances	1,055,236
Receivable From Service Provider	<u>509,188</u>
Total Assets	<u>\$6,279,016</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned Premiums	\$4,418,835
Unpaid Losses And Loss Adjustment Expenses	447,998
Servicing Fees Payable	263,448
Commissions Payable To Agents	184,922
Other Liabilities	104,576
Accrued Expenses, Taxes, License And Fees	<u>86,832</u>
Total Liabilities	\$5,506,611
Total Policyholders' Surplus	<u>772,405</u>
Total Liabilities And Policyholders' Surplus	<u>\$6,279,016</u>

ASSETS:

Total assets are mainly comprised of cash which were provided from the positive cash flow of operations. Premiums receivable represent amounts due from policyholders where a direct billing system is utilized to collect policy premiums. The billing system is owned and maintained by the service provider. Policy installments are deposited by the Coastal Plan. Installment charges are assessed and reimbursed to the service provider to defray the cost and maintenance of the billing system. The Coastal Plan does not anticipate any unusual collection problems with respect to the premium balances and no provision has been recorded in excess of the nonadmitted amounts of \$18,642.

The receivable from service provider represents the funds held by the service provider for the Coastal Plan's state and municipal premium tax obligation. The funds that were held by the service provider were forwarded to the Coastal Plan within the first quarter of 2005.

LIABILITIES:

Unpaid losses and loss adjustment expenses (LAE) are stated at the Coastal Plan's estimate of the ultimate cost of settling all incurred but unpaid claims. There was no reduction for ceded reinsurance and no estimate for salvage and subrogation was applied as a reduction to the unpaid losses. The unpaid losses and LAE are not discounted. The level of unpaid losses and LAE is closely monitored and adjusted for changes in economic, social, judicial and legislative conditions, as well as historical trends. Although this analysis represents the first fiscal year results for the Coastal Plan, past trends were available and utilized from that of the Louisiana Insurance Underwriting Plan.

Management believes that its reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is therefore possible that as conditions and experience develops, additional reserve adjustments may be required in the future.

Unearned premiums comprise 80% of the total liabilities and represent that portion of the premiums written relating to the unexpired terms of current policies in force. The unearned premiums are calculated on a monthly pro rata basis and no reduction for reinsurance was applicable.

Servicing fees payable to the service provider represent the unpaid portion of the underwriting and claims settlement fees due for services rendered to the Coastal Plan in accordance with agreement between the two entities.

Commissions payable to agents represent the unpaid portion of the 10% commission paid to agents on all new and renewal business accepted by the plan. The agents' commission is paid based on the premiums received from policyholders and is offset by the same percentage of return endorsement or policy cancellation.

POLICYHOLDER'S SURPLUS:

Policyholder's surplus increased \$772,405 due to net operating income. No capital stock was issued and no surplus was paid in and contributed during the year. All cash balances were generated from the policies issued by the Coastal Plan.

RESULTS OF OPERATIONS:

Coastal Plan's operating results and certain key financial ratios are presented in the following table.

STATEMENT OF INCOME AND RATIOS 2004

Premiums Earned	\$4,329,122
Losses Incurred	1,403,519
Claims Adjustment Expense Incurred	343,307
Underwriting Expenses Incurred	<u>1,890,080</u>
Underwriting Gain	\$ 692,216
Net Investment Gain	2,126
Miscellaneous Income	<u>96,705</u>
Income Before Income Taxes	\$ 791,047
Federal Income Tax Expense	<u>---</u>
Net Income	<u>\$ 791,047</u>
Premiums Written	<u>\$8,747,957</u>
Loss Ratio	32.4%
LAE Ratio	7.9
Underwriting Expense Ratio	<u>21.6</u>
Combined Ratio	<u>61.9%</u>

The combined ratio expresses the sum of the costs for losses, LAE and underwriting expenses as a percentage of premiums (premiums earned for the loss and LAE ratios and premiums written for the underwriting expense ratio). The ratio is a recognized industry measure of underwriting performance.

Factors contributing to underwriting gain:

- One catastrophe loss occurrence with minimal loss experience resulting from that occurrence.
- Favorable loss experience on all lines of business.

Direct premiums written of \$9,065,686 were reduced by \$317,729 for the Coastal Plan's ceded reinsurance coverage. The Coastal Plan's reinsurance program consists of a multi-layered property excess of loss catastrophe contract with one full reinstatement. Under the terms of the contract, the Coastal Plan retains it's proportionate share of the first \$20 million of a loss occurrence with the ceding reinsurers covering 90% of it's proportionate share of the next \$260 million. In 2004, the Coastal Plan incurred a loss and loss adjustment expense total of \$936,620 from one catastrophe loss occurrence for which no reinsurance coverage was applicable.

RESULTS OF OPERATIONS: (Continued)

Monthly premium volume levels fluctuated during 2004 with the highest monthly premium written during the months of July and August. This peak during the summer months is in direct relationship to the Atlantic Basin hurricane season which begins in June and ends in October. The following table provides a breakdown of the premiums written by policy type:

Homeowners	\$3,150,004
Personal Fire	3,960,446
Mobile Home	1,112,407
Commercial Fire	<u>842,829</u>
Total Premiums Written	<u>\$9,065,686</u>

Other income of \$96,705 is mostly comprised from a non-refundable application processing fee that is to be submitted with each application for insurance. For commercial risks a tentative quote fee is collected, this fee is applied to the policy premium if the quote is accepted by the applicant. If the applicant does not accept the commercial quote, the fee is forfeited and is then recognized as income earned to the Coastal Plan.

The Coastal Plan, by statute, is considered a political instrumentality of the State and therefore exempt from any federal income tax. This was affirmed in a private letter ruling received from the Internal Revenue Service. However, the Coastal Plan is not and shall not be deemed a department, unit, or agency of the State. Funds of the Coastal Plan are not considered part of the general fund of the State, and the State shall not appropriate funds to the Coastal Plan.

CASH FLOW AND LIQUIDITY

CASH FLOW:

Primary sources of cash include cash flow from operations. Primary uses of cash included the payment of claims and commissions, and the payment of reinsurance premiums.

The cash flows of the Coastal Plan are summarized as follows:

CASH FLOW: (Continued)

STATEMENT OF CASH FLOW
2004

OPERATIONS:

Premiums Collected Net Of Reinsurance	\$7,718,903
Miscellaneous Income	96,705
Net Investment Income	6,031
Losses And Related Payments	(1,081,991)
Commissions And Other Expenses Paid	(1,534,039)
Net Cash Provided By Operations	\$5,205,609

FINANCING ACTIVITIES AND
OTHER MISCELLANEOUS SOURCES (USES):

Other Cash (Applied)	(491,017)
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CHANGE IN CASH AND CASH EQUIVALENTS

Net Increase (Decrease) In Cash	<u>\$4,714,592</u>
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The Coastal Plan experienced a very favorable cash flow from operations during its first fiscal year. This is due to a very minimal cost in catastrophe occurrences in 2004 and more importantly the premium volume reflects the need that the Coastal Plan fulfills in providing a residual market mechanism for insureds who cannot find coverage in the standard market.

Cash used in financing and other miscellaneous uses is primarily due to the advances made to the Company's service provider in the amount of \$509,188, which was subsequently reimbursed and received in cash in early 2005.

LIQUIDITY:

Funds available for investment that exceeds the estimated amount required to eventually satisfy liabilities are kept in an interest bearing commercial bank account. No excess cash was invested during the fiscal year of 2004.

Louisiana Citizens Property Insurance Corporation has a \$100 million line of credit agreement that is available jointly to the Coastal and FAIR Plans to utilize for timely payment of property insurance claims incurred by the policyholders of the Plans. During 2004 no funds were drawn on the line of credit and no balances were owed as of the fiscal year end.

FUTURE PLANS:

The Louisiana Insurance Rating Commission approved a property insurance rate change that resulted in an overall increase of 52.4% for the Coastal Plan to all new business policies effective January 1, 2005 and all renewal business policies effective March 1, 2005.

To the extent that the above comments about future plans constitute forward-looking statements, these statements are not guaranties of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about the Coastal Plan, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events may differ materially from those expressed in forward-looking statements.

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES:

A) BASIS OF PRESENTATION:

The accompanying financial statements have been presented, except as to form, on the basis of the requirements for reporting in annual statements of the Department of Insurance of the State of Louisiana. Such financial statement presentation, although in accordance with statutory accounting requirements, differs from generally accepted accounting principles in that premium income is taken into earnings on a pro rata basis over the periods covered by the policies, but policy acquisition and commission costs are charged off when incurred rather than amortized over the terms of the related policies. The aggregate effect of this variation on the statutory financial statements of the Plan is summarized in the supplemental statements of adjusted surplus and adjusted income.

B) ORGANIZATION:

Louisiana Citizens Property Insurance Corporation has been established in accordance with provisions of Louisiana R. S. 1430 (the "Statute"), to operate certain insurance programs which shall function exclusively as residual market mechanisms to provide essential property insurance for residential and commercial property in the State, solely for applicants who are in good faith entitled, but are unable, to procure insurance through the voluntary market.

The Louisiana Citizens Property Insurance Corporation, became operational on January 1, 2004, with its headquarters and corporate offices located in Metairie, Louisiana.

The Coastal Plan (the Company) is an insurance program of the Louisiana Citizens Property Insurance Corporation that provides insurance on property located in the coastal areas of the State of Louisiana.

NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES: (Continued)

C) ACCOUNTING PRACTICES:

The financial statements of Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan (Company) are presented on the basis of accounting practices prescribed or permitted by the Department of Insurance of the State of Louisiana.

The Department of Insurance of the State of Louisiana recognizes only statutory accounting practices prescribed or permitted by the State of Louisiana for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the Louisiana Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Louisiana. Effective January 1, 2000, the State of Louisiana required that insurance companies domiciled in the State of Louisiana prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures manual subject to any deviations prescribed or permitted by the State of Louisiana Insurance Commissioner.

D) ACCOUNTING POLICIES:

Premiums are earned over the terms of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as commissions and servicing carrier fees, are charged to operations as incurred.

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

At December 31, 2004 the Company had admitted assets of \$1,055,236 in premiums receivable due from policyholders. The Company routinely assesses the collectability of these receivables. Based upon the Company's experience, any uncollectible premiums receivable as of December 31, 2004 are not expected to exceed the non-admitted amounts and therefore no additional provision for uncollectible amounts has been recorded. The potential for any additional losses is not believed to be material to the Company's financial condition.

NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES: (Continued)

E) CASH AND CASH EQUIVALENTS:

The Company considers currency on hand and demand deposits with financial institutions to be cash for purposes of the statements of cash flows.

F) USE OF ESTIMATES:

The preparation of financial statements in conformity with statutory accounting principles, and in the supplementary schedules in accordance with generally accepted accounting principles, requires management to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

G) ADMINISTRATIVE SERVICES AGREEMENT:

The Company entered into an agreement for services with the Property Insurance Association of Louisiana (PIAL) effective January 1, 2004, whereby PIAL performs for the Company on a cost and expense reimbursement basis without profit, commission or fees to PIAL, such services as may be required to operate and administer the Company. Retirement benefits reimbursed to PIAL pursuant to the agreement were \$8,461 for the year ended December 31, 2004.

H) INCOME TAXES:

Pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service, the Company constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax. Obligations issued by the Company constitute obligations of the State of Louisiana within the meaning of section 103(c)(1) of the Internal Revenue Code.

I) MANAGING GENERAL AGENT/THIRD PARTY ADMINISTRATOR:

The Company entered into an agreement with Audubon Insurance Company to provide underwriting, policy management, and claim management services. Audubon issues all policies, provides for adjustment of losses, pays losses sustained and expenses of adjusting losses. The Company collects all premiums on policies issued and reimburses Audubon for the losses and adjusting expenses paid. Total reimbursements to Audubon amounted to \$1,283,565 for 2004.

Fees paid to Audubon to provide these services amounted to \$679,926 for 2004. At December 31, 2004, unpaid fees and reimbursements due to Audubon amounted to \$263,448. These amounts are to be paid currently.

J) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying value of cash, receivables and accounts payable approximates fair value due to the short maturity of these instruments.

NOTE 1 - ORGANIZATION AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K) INVESTMENT INCOME:

The Company nonadmits investment income due and accrued if amounts are over 90 days past due. At December 31, 2004 there was no investment income nonadmitted.

NOTE 2 - RECONCILIATION OF NET INCOME AND NET
CASH FLOW FROM OPERATING ACTIVITIES:

Cash flows from operating activities of the Company have been presented using the direct method. When net cash flow from operating activities is presented using this method, a reconciliation of net income and net cash flow from operating activities is required. The following is the reconciliation:

	<u>2004</u>
Net Income	\$ 772,405
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:	
Increase (Decrease) In Assets:	
Change In Premiums Receivable	(1,055,236)
Increase (Decrease) In Liabilities:	
Change In Unearned Premiums, Accrued Claims Expenses, And Losses In Process Of Adjustment	5,359,790
Change In Other Liabilities	<u>128,650</u>
Net Cash Provided By Operating Activities	<u>\$5,205,609</u>

NOTE 3 - CONCENTRATIONS OF CREDIT RISK:

The Company's earned premiums are on insured properties located along the coastal regions of Louisiana. To reduce the risk of this concentration, the Company, together with the Louisiana Joint Reinsurance Plan and the Louisiana Insurance Underwriting Plan, acquired catastrophe reinsurance coverage for combined losses in excess of \$20,000,000 in any one event. In the event that limitation is exceeded, the Company and Plan members will bear a prorated risk of loss of 10% of the next \$260,000,000 in losses with the reinsurance carrier bearing a prorated risk of loss of 90% of this \$260,000,000 layer. Above \$280,000,000 in losses, the Company and Plan members would bear 100% of the risk of loss.

NOTE 4 - COMPREHENSIVE INCOME:

The Company does not have any components of comprehensive income as substantially all investments are classified as held-to-maturity securities in accordance with Statement of Financial Accounting Standards No. 115.

NOTE 5 - CASH DEPOSITS:

The following is a summary of cash deposits at December 31, 2004 and related collateral in the form of federal deposit insurance and pledged securities for Louisiana Citizens Property Insurance Corporation both Coastal and FAIR Plans.

	LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION		
	<u>FAIR PLAN</u>	<u>COASTAL PLAN</u>	<u>TOTAL</u>
Cash:			
Cash	\$ ---	\$ ---	
Demand Deposits - Hibernia National Bank	<u>31,344,068</u>	<u>4,819,978</u>	
	<u>\$31,344,068</u>	<u>\$ 4,819,978</u>	<u>\$36,164,046</u>
Collateral:			
Federal Deposit Insurance	<u>\$ 100,000</u>	<u>\$ 100,000</u>	\$ 200,000
Pledged Securities			<u>39,869,464</u>
			<u>\$40,069,464</u>
Uninsured Balance			<u>\$ ---</u>

These deposits are stated at cost which approximates market. These deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent.

NOTE 6 - RECEIVABLE SERVICE PROVIDER:

Receivable due from service provider, Audubon Insurance Company, amounted to \$509,188 at December 31, 2004. Summarized as follows,

Premium Taxes	<u>\$509,188</u>
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NOTE 7 - PREMIUMS AND AGENT BALANCES:

Receivables from premium and agent balances amounted to \$1,055,236 at December 31, 2004, as follows,

Balances, Due Currently	\$ 64,433
Deferred Balances	<u>1,009,445</u>
	\$1,073,878
Less: Uncollected Balances Non-Admitted	<u>18,642</u>
	<u>\$1,055,236</u>

NOTE 8 - LOSSES AND LOSS ADJUSTMENT EXPENSES PAYABLE:

Amounts due and payable for unpaid losses and loss adjustment expenses at December 31, 2004 total \$447,998. Summarized as follows,

Unpaid Losses	\$319,961
Unpaid Loss Adjustment Expenses	<u>128,037</u>
	<u>\$447,998</u>

Amounts shown for unpaid losses and loss adjustment expenses are due currently.

NOTE 9 - UNEARNED PREMIUMS:

Unearned premiums amounted to \$4,418,835 at December 31, 2004. These premiums will be recognized as earned premiums on a pro rata basis over the next twelve months.

NOTE 10 - ACCRUED EXPENSES AND OTHER:

Accrued expenses at December 31, 2004 amounted to \$86,832, and is summarized as follows,

Premium Taxes Payable:	
State Premium Tax	\$ 60,482
Municipal Premium Tax	<u>23,167</u>
	\$ 83,649
Other Accruals	<u>3,183</u>
	<u>\$ 86,832</u>

These accrued amounts are payable currently.

NOTE 11 - RELATED PARTY TRANSACTIONS:

The Company entered into an agreement for services with the Property Insurance Association of Louisiana (PIAL) effective January 1, 2004, whereby PIAL performs for the Company on a cost and expense reimbursement basis without profit, commission or fees to PIAL, such services as may be required to operate and administer the Company. Operating expenses billed to the Company by the Property Insurance Association of Louisiana for 2004 amounted to \$217,355. At December 31, 2004, unpaid amounts due to Property Insurance Association of Louisiana are \$34,250. The Company is related because of common board members.

The Company participates in a catastrophe excess of loss reinsurance contract with the Louisiana Joint Reinsurance Plan and Louisiana Insurance Underwriting Plan. The Company incurred reinsurance costs of \$317,728 for 2004, and at December 31, 2004 owes \$44,823 to the Louisiana Insurance Underwriting Plan for reinsurance costs.

NOTE 12 - LINE OF CREDIT:

The Louisiana Citizens Property Insurance Corporation established a line of credit in the amount of \$100,000,000. The line of credit is dated September 23, 2004 and terminates on September 22, 2005. The credit line is provided by a group of lender banks, and Hibernia National Bank is the administrative agent, and the Whitney National Bank is co-agent.

The credit line is secured by assignment of any and all proceeds of the reinsurance contract (See Note 3). Commitment fees and analysis charges related to the line of credit amounted to \$43,729 for 2004.

There were no advances on the credit line in 2004. There are no balances due on the credit line at December 31, 2004.

NOTE 13 - SUBSEQUENT EVENT:

In 2005, Hurricanes Katrina and Rita caused severe and catastrophic damages to habitational and commercial properties in Louisiana. The claims to the Company for insured losses is expected to be significant, both in total dollar damages and the number of claims filed.

NOTE 13 - SUBSEQUENT EVENT: (Continued)

The amount of claims and losses from these two Hurricanes, and their cumulative effect on the Company is unknown at this time.

The Company's management and staff are working tirelessly and under difficult conditions and personal circumstances to expedite the claims process for the insureds.

NOTE 14 - OTHER CONTINGENCIES:

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company. The Company has no asset that it considers to be impaired.

NOTE 15 - CATASTROPHIC LOSSES:

During 2004, the Company incurred losses and related expenses from designated catastrophes amounting to \$904,620, and has \$32,000 in reserves for additional losses related to the catastrophes.

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
DECEMBER 31, 2004

A S S E T S

ASSETS:

Cash And Cash Equivalents	\$4,714,592
Premium Receivable And Agents' Balances	1,055,236
Receivable From Service Provider	<u>509,188</u>
 Total Assets	 <u>\$6,279,016</u>

L I A B I L I T I E S A N D S U R P L U S

LIABILITIES:

Unpaid Losses And Loss Adjustment Expenses	\$ 447,998
Unearned Premiums	4,418,835
Other Liabilities	104,576
Accrued Expense, Taxes, Licenses And Fees	86,832
Commissions Payable To Agents	184,922
Servicing Fees Payable	<u>263,448</u>
 Total Liabilities	 \$5,506,611

SURPLUS

	<u>772,405</u>
 Total Liabilities And Surplus	 <u>\$6,279,016</u>

STATEMENT OF INCOME AND SURPLUS
DECEMBER 31, 2004

Premiums Earned	\$4,329,122
Losses And Underwriting Expenses:	
Losses Incurred	\$1,403,519
Claim Adjustment Expense	343,307
Underwriting Expenses	<u>1,890,080</u>
Total Losses And Underwriting Expenses	<u>3,636,906</u>
Underwriting Income	\$ 692,216
Net Investment Income	2,126
Miscellaneous Income	<u>96,705</u>
Net Income	\$ 791,047
Surplus At Beginning Of Year	---
Gains (Losses) In Surplus:	
Change In Non Admitted Assets	(<u>18,642</u>)
Surplus At End Of Year	<u>\$ 772,405</u>

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Premiums Collected Net Of Reinsurance	\$7,718,903
Miscellaneous Income	96,705
Net Investment Income	6,031
Losses And Related Payments	(1,081,991)
Commissions And Other Expenses Paid	(1,534,039)
Net Cash Provided By Operations	\$5,205,609

CASH FLOWS FROM FINANCING AND MISCELLANEOUS SOURCES (USES):

Other Cash (Applied)	(491,017)
Net Increase In Cash And Cash Equivalents	\$4,714,592

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR ---

CASH AND CASH EQUIVALENTS, END OF YEAR \$4,714,592

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash Paid During The Year For:	
Interest	\$ 39,824

Louisiana Property Insurance Corporation
Louisiana Citizens Coastal Plan

SUPPLEMENTARY INFORMATION

SCHEDULE OF PREMIUM STATISTICS
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>LINES OF BUSINESS</u>	<u>PREMIUM WRITTEN</u>	<u>CEDED PREMIUMS</u>	<u>UNEARNED PREMIUM</u>	<u>EARNED PREMIUM</u>
Habitational	\$8,222,857	\$ 299,752	\$3,994,895	\$3,928,210
Commercial	<u>842,829</u>	<u>17,977</u>	<u>423,940</u>	<u>400,912</u>
Totals	<u>\$9,065,686</u>	<u>\$ 317,729</u>	<u>\$4,418,835</u>	<u>\$4,329,122</u>

SCHEDULE OF LOSS STATISTICS
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>LINES OF BUSINESS</u>	<u>LOSSES</u>		
	<u>PAID</u>	<u>UNPAID</u>	<u>INCURRED</u>
Habitational	\$ 999,013	\$ 299,708	\$1,298,721
Commercial	<u>84,545</u>	<u>20,253</u>	<u>104,798</u>
Totals	<u>\$1,083,558</u>	<u>\$ 319,961</u>	<u>\$1,403,519</u>

SCHEDULE OF LOSS ADJUSTMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>LINES OF BUSINESS</u>	<u>LOSS ADJUSTMENT EXPENSES</u>		
	<u>PAID</u>	<u>UNPAID</u>	<u>INCURRED</u>
Habitational	\$ 202,831	\$ 121,702	\$ 324,533
Commercial	<u>12,439</u>	<u>6,335</u>	<u>18,774</u>
Totals	<u>\$ 215,270</u>	<u>\$ 128,037</u>	<u>\$ 343,307</u>

Louisiana Property Insurance Corporation
Louisiana Citizens Coastal Plan

Schedule "4"

SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NONE

See Auditor's Report

SCHEDULE OF ADJUSTED SURPLUS AND ADJUSTED INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004

SCHEDULE OF ADJUSTED SURPLUS:

Adjusted Surplus At Beginning of Year, January 1, 2004	\$ ----
Net Adjusted Income	<u>1,693,732</u>
Adjusted Surplus, End Of Year, December 31, 2004 Adjusted To Conform With Generally Accepted Accounting Principles	<u>\$1,693,732</u>

SCHEDULE OF ADJUSTED INCOME:

Net Income	\$ 772,405
Increase (Decrease) In Deferred Policy Acquisition Costs	<u>921,327</u>
Net Adjusted Income Adjusted To Conform With Generally Accepted Accounting Principles	<u>\$1,693,732</u>

PEPPERMAN, EMBOULAS, SCHWARTZ & TODARO L.L.C.

S. IRVIN TODARO
WILLIAM C. ABADIE, JR.
JAMES M. KOLWE
LUCILLE M. HESS
WAYNE J. BABIN, JR.

ROBERT W. THERIOT

CERTIFIED PUBLIC ACCOUNTANTS
1815 CLEARVIEW PARKWAY
METAIRIE, LA 70001
TEL (504) 837-4555
FAX (504) 837-4551

JOHN F. HARTMAN (1890-1967)
WILLIAM G. ALY (1901-1995)
EUGENE F. MONNIER (1905-1985)
EMILE A. ALT (1910-1989)
JAMES J. GALLAGHER, JR. (1918-1989)
JACOB F. PEPPERMAN (1927-1990)
WILFRED SCHWARTZ, RETIRED
MICHAEL S. HOOK (1954-1997)
LAWRENCE A. EMBOULAS, RETIRED

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

Metairie, Louisiana

We have audited the annual financial statements of Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, Metairie, Louisiana, as of and for the year ended December 31, 2004, and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is described in the accompanying schedule of findings and questioned costs as item 2004-01.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described is not a material weakness.

This report is intended solely for the use of the Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, its management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Paggenman, Emboukas, Schwantz & Todaro, L.L.C.

Metairie, Louisiana
January 27, 2006

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2004

We have audited the financial statements of the Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan, as of and for the year ended December 31, 2004, and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2004, prepared on a statutory basis of accounting, resulted in an unqualified opinion.

1. Summary of Independent Auditor's Results

- | | |
|---|----------------|
| a. Reportable conditions in internal control were disclosed by the audit of the financial statements: | Yes |
| Material weaknesses: | No |
| b. Noncompliance which is material to the financial statements: | Yes |
| c. Reportable conditions in internal control over major programs: | Not Applicable |
| Material weaknesses: | Not Applicable |
| d. The type of report issued on compliance for major programs: | Not Applicable |
| e. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: | Not Applicable |
| f. Major programs: | Not Applicable |
| g. Dollar threshold used to distinguish between Type A and Type B programs: | Not Applicable |
| h. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: | Not Applicable |
| i. A management letter was issued: | No |

2. Findings Relating to the Financial Statements Reported
In Accordance With Government Auditing Standards

Reference Number: 2004-01

Fiscal Year Finding Initially Occurred: 2004

Description of Finding:

The Louisiana Citizens Property Insurance Corporation - Louisiana Citizens Coastal Plan failed to comply with Louisiana audit and reporting laws. Louisiana Revised Statute 24:513 and the Louisiana Governmental Audit Guide require that all engagements be completed and transmitted to the Legislative Auditor within six months of the close of the entity's fiscal year. The independent auditors were not engaged before June 30, 2005, therefore it was impossible to meet the required completion date of June 30, 2005. The effects of Hurricane's Katrina and Rita caused further delays in the completion of the audit engagement.

Corrective Action Taken: Yes

Planned Corrective Action/
Corrective Action Taken:

The basic financial statements are in the final stages of completion and will be transmitted to the Legislative Auditor as soon as possible.

Management's Response:

We concur with the above findings and recommendations.

3. Findings and Questioned Costs Relating To Federal Awards

Not Applicable.

Louisiana Citizens Property Insurance Corporation
Louisiana Citizens Coastal Plan

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2004

1. Findings Relating To the Financial Statements Reported
In Accordance With Government Auditing Standards
Not Applicable - Initial Year
2. Internal Control And Federal Compliance
Not Applicable - Initial Year
3. Management Letter
Not Applicable - Initial Year